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Market Update Webinar July 14th 2015

Irish Life Investment Managers

Agenda

- Greek deal
- China equity correction
- Economic outlook
- Investment markets year to date
- Q2 earnings season
- Market outlook



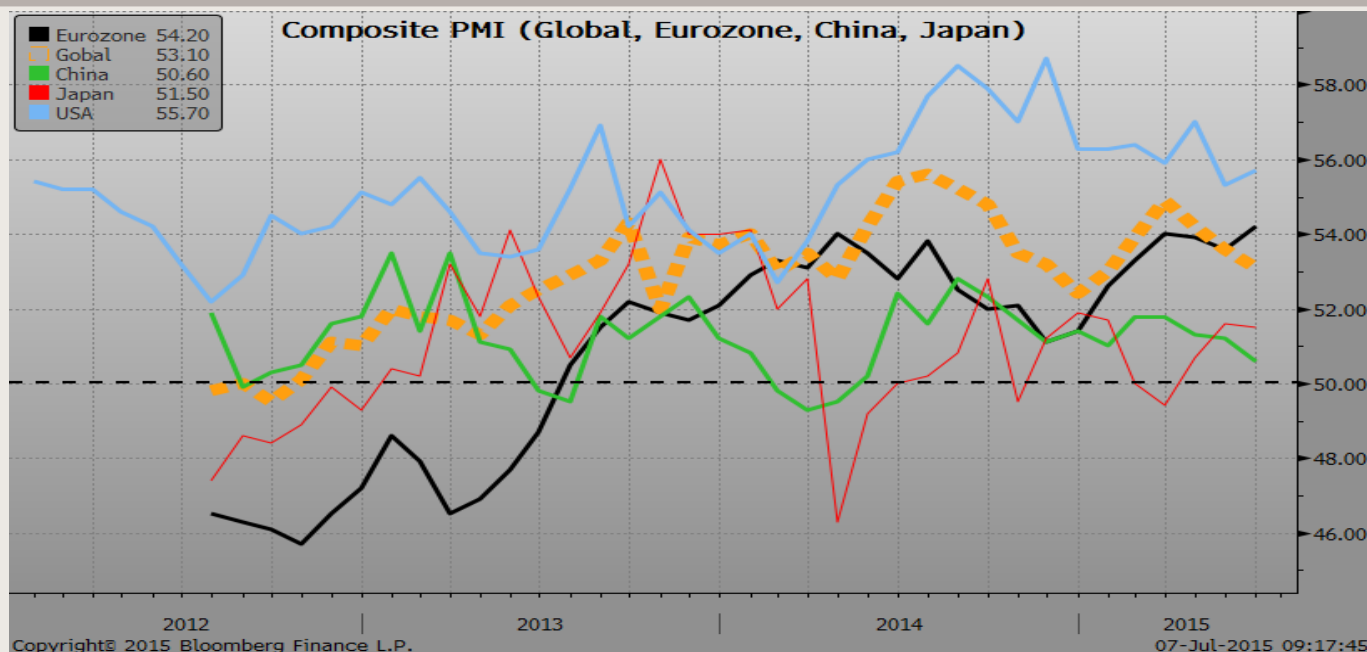
Greek Deal

- Agreement reached between creditors and Greece for €82/86bn programme over 3 years
- Greece to pass legislation by Wednesday on number of issues:
 - Harmonise and raise VAT
 - Lower pension expenditure
 - Transfer some state owned enterprises to a privatisation fund
 - Repeal laws over last 6 months which were contrary to previous bailout
 - Reform and open the economy to improve competitiveness
 - Reform judicial system
- Soft restructuring possible at later date but debt haircuts ruled out
- Some European governments to give approval for formal negotiations to begin
- Funding for Greece until next bailout begins yet to be agreed
- ECB provision of Emergency Liquidity Assistance likely to continue
- Greek general election possible later in the year
- Positive market reaction to expectations/announcement of deal

China Equity Market Correction

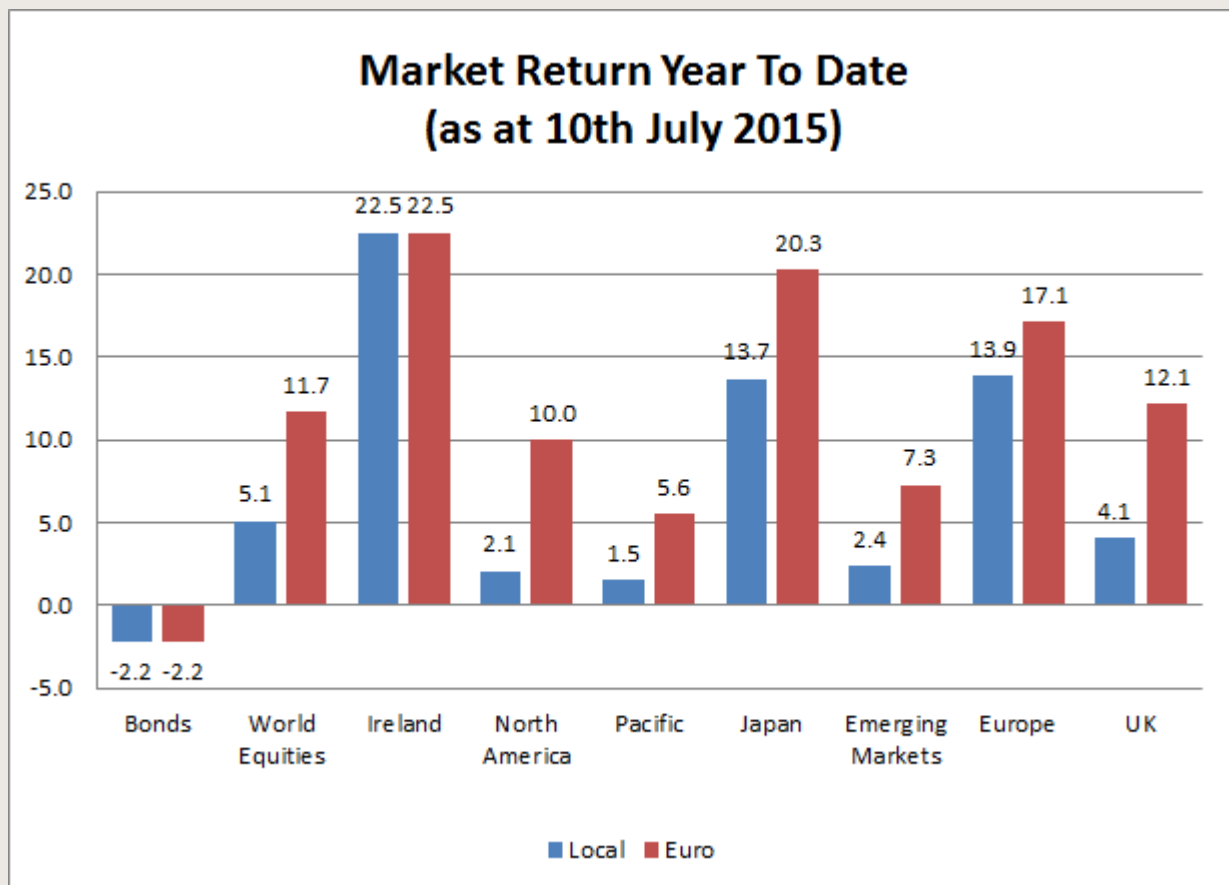
- Sharp falls in China 'A' shares since June, -36% at low
- China 'A' shares still up approx 102% since mid 2014 and 36% ytd
- Significant level of activity driven by retail investors and based on margin trading
- Margin trading rose approx 220% from late 2014
- Market correction began when authorities attempted to reign in margin levels
- Number of initiatives to put support under market:
 - Suspended planned IPO's
 - Pledged liquidity to brokers
 - Market stabilising fund established
 - Holders of positions >5% not allowed sell shares
 - Collateral requirements raised for sellers of futures
- Margin levels have fallen significantly
- Limited wealth impact and economic contagion expected
- Financial systematic risk low
- Markets rebounded 13% from lows, back to early April levels

Economic Outlook



- Q1 global GDP disappointed
- Recent data releases suggest an improvement in remainder of year
- Lower oil and fiscal drags are positives
- Eurozone economy seen significant improvement
- China disappointed

Investment Markets Performance Year to Date



German 10 Year Bond Yield



- All time low of 0.05% in mid April on low inflation and ECB asset purchases
- Yields moved higher on easing of deflation fears; rebound in oil prices from lows; deterioration in bond market demand supply dynamics; Draghi suggestion of need to get used to higher volatility
- Yield fell from the early June high on flight to safety during Greek tensions

Q2 Earnings Reporting Seasons

- US Q2 earnings downgraded by -2.5% through the quarter
 - Consensus forecast is earnings will rise 0.5% q/q but fall -2.9% y/y
 - Q2 earnings ex energy forecast to rise 8% y/y
 - Overall margins forecast to rise 0.2% y/y. Ex energy margins forecast to rise 0.5% y/y
 - Results expected to surprise positively
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- European earnings forecasts were upgraded for the first time in four years following Q1 results
 - Q2 European EPS forecast to rise 6% y/y
 - Ex energy, European EPS forecast to rise 16% y/y



Investment Market Outlook

- **Further upside in equity markets supported by:**
 - Modestly improving macro and earnings backdrop
 - Scope for absolute valuations to rerate higher
 - Attractive relative valuations
 - Continued accommodative monetary policies
 - Positive flows to equities
- **Positive/negative forces evident in bond markets:**
 - Divergence in policies between leading global central banks
 - US rate rise expected in December
 - Economic data continuing to modestly improve
 - Inflation expected to rise but remain relatively low
 - European net supply turning negative in coming months
 - ECB asset purchases could extend beyond September 2016
 - Yields likely to trade in a range somewhat higher than seen in the last year



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